

Message Text

LIMITED OFFICIAL USE

PAGE 01 ROME 16045 051802Z

64

ACTION TRSE-00

INFO OCT-01 EUR-12 EA-07 NEA-10 ISO-00 EB-07 COME-00

AID-05 CIAE-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 STR-04

NSC-05 SS-15 CEA-01 DODE-00 L-03 H-02 /102 W

----- 012354

R 051629Z NOV 75

FM AMEMBASSY ROME

TO SECSTATE WASHDC 4009

INFO AMEMBASSY ABU DHABI

AMEMBASSY BONN

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMCONSUL DHAHRAN

LIMITED OFFICIAL USE ROME 16045

E.O. 11652: N/A

TAGS: EFIN, SA, USSAEC

SUBJ: SAUDI ARABIAN REQUIREMENT FOR CASH PERFORMANCE BONDS ON
CONSTRUCTION CONTRACTS

REF: (A) STATE 254849 (B) EMBASSY'S A-377 OF 8/8/75 (NOTAL)

SUMMARY. ISSUANCE OF PERFORMANCE GUARANTEES BY ITALIAN BANKS TO
LOCAL FIRMS ENGAGED IN FOREIGN CONSTRUCTION PROJECTS DOES NOT REQUIRE
FREEZING OF SPECIFIC FUNDS AND IS FACILITATED BY FACT THAT ITALIAN
EXPORT INSURANCE ALSO COVERS AMOUNT OF PERFORMANCE GUARANTEE OR
BOND. PROVISION IN ITALIAN EXPORT INSURANCE PROGRAM TO INSURE
AGAINST INFLATION RISK HAS BEEN IN SUSPENCE FOR THE LAST YEAR AND
THERE ARE NO PLANS TO RESUME COVERAGE UNDER THIS PROVISION. FACT
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 ROME 16045 051802Z

SOME ITALIAN BIDDERS BELONG TO LARGE GOVERNMENT-OWNED HOLDING

COMPANIES IS BELIEVED TO INCREASE THEIR ABILITY TO SIGN FIXED COST CONTRACTS DUE FACTORS NOT DIRECTLY RELATED TO OFFICIAL GOI SUPPORT PROGRAMS. END SUMMARY.

1. ITALIAN LAW PERMITS LOCAL BANKS TO ISSUE GUARANTEES OF CONTRACT PERFORMANCE TO ENGINEERING AND CONSTRUCTION FIRMS AND, IN PRACTICE, ITALIAN BANKS ISSUE SUCH GUARANTEES. THIS IS ESPECIALLY TRUE WITH RESPECT TO LARGE PROJECTS ABROAD (PARTICULARLY THE MIDDLE EAST) WHERE BANK GUARANTEES ARE ORDINARILY REQUESTED TO ASSURE CONTRACT PERFORMANCE. IN THESE FOREIGN PROJECTS, BANK GUARANTEES ARE GREATLY FACILITATED BY THE ITALIAN GOVERNMENT EXPORT INSURANCE PROGRAM (SEE REF B) WHICH PROVIDES INSURANCE COVERAGE ON THE COST OF THESE PROJECTS AND, IN ADDITION, ON THE GUARANTEE OR BOND REQUIRED TO ASSURE CONTRACT PERFORMANCE.

2. THERE IS NO REQUIREMENT THAT GUARANTEES ISSUED BY BANKS IN ITALY FOR FOREIGN CONSTRUCTION PROJECTS BE COVERED BY SEGREGATED CASH DEPOSITS. SINCE THE GUARANTEE FOR FOREIGN PROJECTS IS COVERED BY THE GOI'S EXPORT INSURANCE, THE RISK TO BANKS IN ISSUING SUCH GUARANTEES IS LIMITED.

3. ITALIAN GOVERNMENT DOES NOT CURRENTLY PROVIDE INSURANCE AGAINST COST OVERRUNS IN FOREIGN CONSTRUCTION PROJECTS. THERE IS A PROVISION IN ITALIAN EXPORT INSURANCE PROGRAM TO INSURE AGAINST INABILITY OF SUPPLIER TO OBTAIN INCREASES IN PAYMENT WARRANTED BY INCREASES IN PRODUCTION COSTS. HOWEVER, AS REPORTED IN REF B, COVERAGE UNDER THIS PROVISION COMMONLY KNOWN AS INFLATION RISK INSURANCE WAS SUSPENDED IN SEPTEMBER 1974. OFFICIALS

OF ITALIAN EXPORT INSURANCE AGENCY (INA) HAVE STATED THAT THERE ARE NO PLANS TO RESTORE AVAILABILITY OF THIS COVERAGE. INA OFFICIALS STATED THAT ACTUAL AMOUNT OF CLAIMS UNDER INFLATION RISK PROVISION WAS VERY SMALL, BUT WORLDWIDE INFLATION SITUATION CREATED POTENTIAL FOR VERY LARGE CLAIMS AND THEREFORE NECESSITATED ITS SUSPENSION.

4. IN REGARD TO OTHER FACTORS OUTSIDE OF OFFICIAL GOI SUPPORT WHICH ENABLE ITALIAN FIRMS TO UNDERTAKE FIXED COST CONTRACTS, IT SHOULD BE NOTED THAT SOME OF THE ITALIAN FIRMS INVOLVED IN LARGER CONTRACTS BELONG TO GOVERNMENT-OWNED HOLDING COMPANIES SUCH AS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 ROME 16045 051802Z

ENI OR ERI. ONE EXAMPLE IS SOCIETA' PER CONDOTTE D'ACQUA, OF IRI, WHICH RECENTLY WON BILLION DOLLAR BANDAR ABBAS CONTRACT IN IRAN. VERY LARGE SIZE OF THESE HOLDING COMPANIES GIVES MEMBER COMPANIES POTENTIAL ACCESS TO SUBSTANTIAL RESOURCES AND APPARENTLY ENABLES THEM TO ASSUME RISKS MANY U.S. FIRMS WOULD FIND UNACCEPTABLE. ALSO WE SUSPECT THAT PROFITABILITY ON AN INDIVIDUAL CONTRACT FOR THE SPECIFIC BIDDING FIRM IS SOMETIMES SUBORDINATED TO OVERALL INTERESTS OF GROUP E.G. ACCESS TO CRUDE

OIL FOR ENI AND FULL PRODUCTION AND EMPLOYMENT OF MANUFACTURING
COMPANIES OF GROUP FOR IRI. AIRGRAM DISCUSSING THESE NON-OFFICIAL
FACTORS FURTHER WILL SHORTLY BE FORWARDED TO DEPARTMENT.
CALINGAERT

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CREDIT GUARANTEES, CONTRACTS, BONDS (SECURITIES)
Control Number: n/a
Copy: SINGLE
Draft Date: 05 NOV 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975ROME16045
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750385-0067
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751172/aaaacmdr.tel
Line Count: 119
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 STATE 254849
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 28 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <28 MAY 2003 by ElyME>; APPROVED <15 OCT 2003 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SAUDI ARABIAN REQUIREMENT FOR CASH PERFORMANCE BONDS ON CONSTRUCTION CONTRACTS
TAGS: EFIN, SA, USSAEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006